



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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Contact: Maria Velasquez, Communications Director (619) 235-5725 (direct line) mvelasquez@saniego.gov

PENSION CREDITS PURCHASED IN LIEU OF ACTUAL WORK PERFORMED HAS CREATED \$110 MILLION DEFICIT; CITY ATTORNEY PROPOSES IMMEDIATE CHANGES

San Diego, CA: Seeking to overhaul a retirement benefit which allowed City employees to buy grossly under priced “pension service credits” in lieu of actually working, City Attorney Michael Aguirre today submitted an ordinance proposal to enforce the original intent of the program to prevent the City from going further into debt.

“The purchase of service program was never intended to result in a \$110 million financial drain on the retirement system but because of the irresponsible pricing structure that is exactly what happened,” remarked City Attorney Aguirre. “The City Council must take the appropriate measures to stop this financial dereliction,” he added.

As part of the pension service credit program approved by the City Council in 1996, City employees were allowed to purchase up to five years of pension service credits—for years not actually worked for the City—at a price substantially below what the benefit costs the City to pay. As of June 30, 2005, 3442 employees had purchased 15,244 years of service.

This has resulted in the San Diego City Employees’ Retirement System (SDCERS) having to absorb the \$110 million shortfall which is part of the overall \$1.43 billion retirement system deficit that the City currently faces.

In an effort to enforce the original ordinance, City Attorney Aguirre today asked the City Council to recalculate the pension credits at a cost-neutral level. In other words, the price will not result in a debt to the City. Employees who have already purchased pension credits will either have to pay the difference between the new and old rate structure, or have their pension credit years converted to a lesser amount based upon the higher purchase rate.

In addition, the City Attorney is urging the City Council to reverse changes to the City’s municipal code which were improperly approved in 2002, allowing employees to use their purchase of service credits

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1200 Third Avenue, Suite 1620, San Diego, California 92101-4188 (619) 236-6220

towards vesting in the retirement system. The City Charter has always required that, for vesting purposes, an employee must work at least 10 years for the City. In 2002, an initiative (Proposition C) was placed before voters to amend this Charter requirement and allow vesting to occur in five years. Voters rejected the proposal.

The City Attorney also advised the City Council members that they may have to recuse themselves from participating in a vote on the amendments to the municipal code if they purchased service credits in the past.

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